

February 2102 Unit Meeting Discussion Materials

League of Women Voters of Metropolitan Tulsa

Definitions of Privatization

While the term "privatization" generally conjures up a consistent theme, it is important to outline the continuum on which the term can and has been used by policymakers. The Florida House of Representatives Committee on Governmental Operations conducted a review of the literature on privatization and offered the following spectrum of definitions:

- Engaging the private sector to provide services or facilities that are usually regarded as public sector responsibilities.
- Shifting from publicly to privately produced goods and services.
- Transferring government functions or assets, or shifting government management and service delivery, to the private sector.
- Attempting to alleviate the disincentives toward efficiency in public organizations by subjecting them to the incentives of the private market.
- Using the private sector in government management and delivery of public services.

Arguments For and Against Privatization

It should come as no surprise that the issue of privatization has vocal supporters and opponents. Proponents contend that privatization should be used for cost savings and administrative expediency. At a minimum, privatization is a tool that should be explored when a government service provider does not have the necessary expertise or personnel or when the service provider needs to complete projects quickly. In general, these justifications refer to the belief that private sector organizations are less bureaucratic than government agencies and can make decisions more rapidly to assign the necessary resources where the greatest need occurs.

Opponents of privatization efforts suggest that cost savings, the primary reason for pursuing a privatization policy, is never a guarantee. Detractors of privatization also claim that service quality suffers because private providers focus their attention on profit margins rather than on providing a valuable service. The foes suggest that if cost savings is the goal, existing institutional structure should be strengthened to allow government to restructure itself into a more efficient and effective service delivery agent.

Arguments in favor of privatization:

- Helps governments save money in management and delivery of public services.
- Allows for speedy implementation of certain programs.
- Provides high-quality services in some areas.
- Becomes necessary when government lacks the expertise or personnel to carryout certain programs.
- Uses more innovative approaches and technology.
- Helps dissolve unnecessary government service monopolies.
- Offers services more effectively due to flexibility and reduced red tape.
- Slows the growth of government or downsizes government.

- Introduces competition between government employees and private providers.
- Provides an alternative to traditional ways of improving government productivity.

Arguments against privatization:

- Does not save taxpayers' money.
- Does not guarantee market competition and can result in private monopolies.
- Leads to corruption.
- Causes policymakers and managers to lose control over privatized services.
- Diminishes accountability of government.
- Private gain and public good do not always correspond.
- Is unnecessary given other productivity approaches available to public service providers.
- Compromises quality because of private vendor profit motive.
- Lowers state employee morale and contributes to fear of displacement.
- Destabilizes economically marginal communities.

Methods of Privatization

- **Asset Sale** ○ The state sells or cashes out its assets to private providers to enlarge the tax base.
- **Contracting Out** ○ The state enters into agreements with private vendors to provide services. The state pays contractors to provide the services.
- **Deregulation** ○ The state removes its regulations from the service previously monopolized by government in favor of private provision of the service and competition against government agencies.
- **Franchise** ○ The state gives monopoly privileges to a private vendor to provide a service in a specific geographical area.

Excerpted from "A Review of Privatization Definitions, Options and Capabilities: For the Business, Labor and Agriculture Interim Committee" by Gordy Higgins, Research Analyst, Legislative Services Division, Florida State Legislature.

DISCUSSION QUESTION:

What municipal government services should never be privatized in any form?

Managing Change: Recommendations and Best Practices for Municipal Efficiency and Effectiveness

OBJECTIVES

- Develop an inventory of all services provided by the City
- Identify strategic opportunities to reduce costs, generate revenue and enhance efficiency to help the City sustain the delivery of core services

SERVICES REVIEWED

Included: 20 departments, 1,512 services and input from 457 employees

- Communications
- Finance
- Grants Administration
- Human Resources
- Information Technology
- Internal Auditing
- Legal
- Mayor's Office
- Development Services
- Equipment Management
- Event Centers
- Fire
- Human Rights
- Municipal Courts
- Parks and Recreation
- Performing Arts Center
- Planning
- Police
- Public Works
- Working in Neighborhoods

Note: Excluded the Tulsa Airport Authority, Gilcrease Museum and City Council

PROCESS

- Systematic approach by KPMG based on leading practices in government and commercial sectors
 - Costs, revenues, employee resources
 - Also evaluated based on the following criteria:
 - Mandated: is the service required to be provided by the city?
 - Alignment: does the service align with the Mayor's strategic priorities?
 - Structure: does the service have a clear design and is it cost-competitive?
 - Performance: is the service performing effectively?
- Steering Committee (business and philanthropic leaders, representatives from Council, Mayor's office and County) is providing oversight – approved KPMG's methodology, validated potential opportunities and provided input on priority initiatives for consideration during first phase of implementation
- Implementation process
 - Create Management Review Office to centralize management of strategic initiatives
 - Work with employees to determine which initiatives to implement and timelines
 - Continue to look for new opportunities to improve efficiency and effectiveness

OPPORTUNITIES

- Cost savings: strategic elimination, sourcing/managed competition, public-private partnership
- Revenue: fee for service, increase customers, public-private partnership
- Efficiency: centralize duplicative services, inter-agency partnership, shared services/automation

KEY TAKEAWAYS

- 61% of services not mandated (some may be strategically aligned or provide critical support)
- Of the total services provided, 69% of service *should* be benchmarked for cost-effectiveness
- 61% have **no basis** to determine if service is competitive with other private or public organizations
- Only 12% of services possess measurable objectives, goals or performance measures
- Many customer-service provider relationships do not appear to establish service-level expectations
- Many administrative processes are manually intense, with multiple levels of manual approval

SPECIFIC OPPORTUNITIES*

- **Strategic Elimination**
Services that may be strategically eliminated, reduced or suspended (not mandated or a core function)
 - Public Works – Horticulture services (\$1.57 million cost)
 - Police – Career Development, Research & Training and Training service (\$1.04 million cost)
- **Strategic Sourcing/Managed Competition**
Services that may be sourced across internal resources and external providers to convert fixed into variable costs.
Managed competition may be utilized to ensure largest savings possible.
 - Equipment Management – Maintenance, Parts & Fuel Management (\$11.4 million cost)
 - Public Works – Building Operations services (\$9.5 million cost)
 - Human Resources – Workers Comp Claims Admin (\$5.2 million cost)
 - Information Technology – Radio Services & Maintenance, Server services, Directory (\$3.9million cost)
 - Internal Auditing – Internal Audit services (\$728,000 cost)
- **Public-Private Partnerships (cost savings)**
Utilize to offset or transfer City's investment in operating and capital costs
 - Parks & Recreation – rec centers, programs, zoo/nature center services (\$7.2 million cost)
 - Performing Arts Center – Performing Arts services (\$1.6 million cost)
- **Public-Private Partnerships (revenue)**
Competitively bid the right to lease assets, including operation, maintenance and financing of services
 - Public Works – water utility services (\$70.9 million cost)
- **Internal Consolidation**
 - Information Technology – 911 Emergency services (\$7.5 million cost)
Strategically realign City's 911 Center as a public safety function and staff with EMT personnel
 - Across five departments – Code Enforcement services (\$3 million cost)
Consolidate code enforcement services across the City to create a central point of customer contact
- **Inter-agency Partnership**
 - Municipal Courts – Judicial and Probation Services (\$14.5 million cost)
- **Shared Services/Automation**
- *Centralize and enhance automation of processes and leverage shared resources*
 - Across 15 departments – Supply Chain services (\$7.9 million cost)
 - Across 14 departments – Payroll services (\$2.7 million cost)
 - Across 11 departments – Grants services (\$18.2 million cost)
- **Civilianize**
Civilianize administrative services to reduce personnel costs and put police officers back on the streets
 - Police Department – 34 Administrative services (\$8.7 million cost)

*Estimated annual costs provided for each service, inclusive of operations, resources, salaries, contracts, materials, supplies, utilities, etc.